

MUNIS-Primary GO deals court retail investors - RTRS

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NEW YORK, Sept 25 (Reuters) - Primary deals geared toward retail investors in the \$3.7 trillion U.S. municipal bond market drew heavy interest for a second day this week with a \$400 million competitive sale on Tuesday of Massachusetts general obligation bonds.

Bank of America Merrill Lynch won the bidding for the highly rated bonds, which sold with a true interest cost of 3.42 percent. The bonds also had an 8-year call option, shorter than the typical 10-year call option on many tax-exempt muni bonds.

The average lifespan of the pricing was 5 years longer than the last time Massachusetts sold GO bonds, in May. Yet Tuesday's deal ended with an average yield 9 basis points lower, and with a shorter call, according to Colin MacNaught, the state's assistant treasurer for debt management.

The structure of the deal, with bonds sold at or close to par, is more retail friendly – and that is exactly how the Commonwealth of Massachusetts wanted it, MacNaught told Reuters.

“We like that. We want more of our bonds sold at par,” he said. “We want them held as widely as possible.”

The more diversified the state's investor base, the more liquid its bonds will be, and better liquidity leads to better pricing, he said.

In another retail-friendly deal this week, California upsized its GO offering on Monday, adding \$200 million to what had originally been a \$1.55 billion transaction and opening the sale to institutions a day early after retail investors gobbled up \$1.02 billion of the bonds.

In Massachusetts, officials think their new “enhanced disclosure program” could have helped spur retail demand for the state's paper. The state updates its disclosures every other month, even if it is not selling bonds at the time, and then follows up with an investor conference call.

“We just think it's a better process for investors if we are constantly giving them data,” MacNaught said. Bidding was aggressive on Tuesday, with a total of 11 bids compared with 9 for the state's May offering, he said.

Massachusetts has over \$18 billion in outstanding general obligation bond debt, not including Tuesday's sale. The state plans to issue nearly \$1.9 billion over the course of fiscal 2013 to fund capital projects, about half of them transportation projects, he said.

Before Tuesday's deal, the state's financial advisers projected that borrowing costs would total \$382 million. In the end, interest costs will total just \$321 million.

Amid near record-low interest rates and a shortage of new paper, Massachusetts is also planning to issue an estimated \$1.2 billion of GO revenue anticipation notes on Thursday in two series.

In Tuesday's secondary market for tax-free debt, prices were flat to slightly higher, knocking the yield on 10-year top-rated muni bonds down 1 basis point to 1.77 percent on Municipal Market Data's benchmark scale.

The yield on 30-year bonds also dropped 1 basis point to 2.94 percent, according to MMD, a unit of Thomson Reuters.

(Reporting by Hilary Russ; additional reporting by Jim Christie; Editing by Dan Grebler)